Bureau of the Committee on Fiscal Affairs

STRATEGY FOR BUILDING A GLOBAL TAX NETWORK (IMF/WORLD BANK PROPOSAL)

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Background

This proposal arises out of a series of discussions between interested organisations in the context of the UN Financing for Development initiative. This note identifies the UN Secretary-General’s proposals and provides an alternative series of proposals for building a global tax network.

The Secretary-General of the United Nations has identified enhancing revenue capacity as one of the components of a strategy to provide finance for development. To achieve this a number of proposals were set out in his December Report to the first Preparatory Committee (see Box 1).

Box 1: Proposals by the UN Secretary-General related to the establishment of an international tax organisation

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<th>Countries should consider the formulation of a medium-term fiscal framework to provide a measure of predictability for public spending programmes and to set out clear goals for mobilization of tax and non-tax revenues and the profile of public assets and liabilities, including contingent liabilities. International institutions should be ready to assist countries in developing such a framework and all donor partners should take it into account in providing assistance to those countries.</th>
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<td>Countries should strive to develop progressive taxation systems and to endeavor to ensure that the process of adopting taxes is equitable and participatory through, inter alia, the following policies and measures:</td>
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<td>- Ensuring that the incidence of taxation falls justly on different income classes and different categories of income like wages, profits and rents;</td>
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<td>- Extending the tax base to cover income from activities that are not currently taxed;</td>
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<td>- Expanding indirect taxes and making them more equitable by targeting the growing modern service sector and socially environmentally undesirable activities.</td>
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<td>All countries should strive to simplify tax laws and to improve the efficiency and effectiveness of tax administration and enhance enforcement through the strengthening of institutional, technical and technological capacities, including the development of a transparent, accountable and corruption-free system. Developed countries and international institutions should provide increasing support, especially in terms of resources for technical assistance in capacity building, to developing and transition economy countries undertaking these changes.</td>
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<td>Developing countries and countries with economies in transition should undertake appropriate administrative and legislative measures to combat tax evasion and prevent tax avoidance. International institutions should provide assistance for this purpose, particularly to facilitate south-south cooperation.</td>
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<td>The high-level meeting should mandate that a careful, in-depth study be undertaken, in cooperation with the IMF and other relevant international financial institutions, of potential means for enhancing tax-related international cooperation, including mandating a specific negotiation process on international agreements on this subject and the possibility of establishing an international organisation or forum for cooperation on tax matters.</td>
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Developing countries must be able to raise the revenues required to finance the services demanded by their citizens and the infrastructure (physical and social) that will enable them to move out of poverty. Taxation will play a key role in this revenue mobilization. This in turn requires well-designed tax policies which are translated into clear legislation and which are administratively feasible. Perhaps the greatest challenge facing these countries is to improve the effectiveness of their tax administrations.

In this context, the increasing globalization of the economy is relevant both for developed and developing countries. The constraints that it places on countries’ ability to set and enforce their own taxes are felt increasingly keenly, raising the possible gains from substantive dialogue on tax matters. This is true of both developed and developing countries, and indeed internationalization is making the interactions between their tax systems increasingly important. The list of taxation issues with global relevance is growing rapidly: e.g. the taxation of multinational enterprises; the impact of international tax competition; cross-border VAT and excise issues; the taxation of electronic commerce; and the treatment of mobile labor.

There would be significant benefits from creating a global network of contacts between tax officials so that they can share experiences on tax policy issues of common interest and on ways to improve the effectiveness of tax administration and enhance coordination in the provision of technical assistance (TA).

At present a number of international organisations are engaged in engendering dialogue and developing policy frameworks and administrative structures for taxation. The Organisation for Economic Co-operation and Development (OECD) has developed a Global Forum on Taxation which allows for global dialogue on issues of common concern such as the taxation of electronic commerce, tax treaties, and transfer pricing. It also runs regional and country programmes in tax policy and administration. The IMF and the World Bank are the main providers of technical assistance in tax policy and administration. The UN has established an Ad Hoc Group of Experts on International Cooperation in Tax Matters which focuses on international taxation issues and meets on an annual basis. In addition, a number of organizations are currently dealing with tax issues on a regional basis. The most important are the Inter-American Center of Tax Administrations (CIAT), the Commonwealth Association of Tax Administrations (CATA) and the Intra-European Organization of Tax Administrations (IOTA).

Table 1 (attached) provides an overview of existing international organisations which currently work in the tax field.

None of the existing organizations and groupings, however, provides for a truly global dialogue on tax policy and tax administration issues with participation on an equal basis of developed and developing countries. Equally significantly, there is no overall co-ordination of the efforts of the various organisations to improve, by means of assistance, the effectiveness of tax policy and administration. This proposal sets out a strategy for encouraging such a global dialogue, and for developing greater coherence between interested international organisations.

A global dialogue on taxation will have to address both tax policy and tax administration issues. In addition to developing best practices in administration, it should offer the opportunity to discuss policy matters, including on international tax issues. Due to their limited mandate and the fact that they do not represent tax policy makers, this can not be achieved by simply grouping existing regional tax administration organizations (whose coverage is, in any event, currently incomplete). Thus, a broader initiative is required to organize the dialogue.
Integrating and reinforcing existing initiatives of international organizations

The development of a global network can build on and thus considerably benefit from existing capacity building and cooperation initiatives undertaken by international and regional organizations. It can at the same time contribute to coordinate and reinforce these initiatives.

As noted above, the Global Forum on Taxation (GFT) recently established by the OECD is intended to facilitate an ongoing dialogue between OECD member countries and non-OECD countries on international taxation issues, a key aim being to associate non-OECD countries more effectively into the work of the OECD’s Committee on Fiscal Affairs (CFA). Priority areas of the GFT are international tax issues and issues on which the OECD has developed a certain expertise. The GFT is one of a number of similar global fora set up by the OECD to encourage dialogue on key issues with non-OECD countries. However, there is a risk that the credibility and, hence, effectiveness of any OECD-led structure will suffer from an unavoidable perception of OECD dominance. At the same time, through actively involving the OECD in its management, the global tax dialogue can benefit from the CFA and OECD member countries’ experience.

The UN has the advantage of a global membership, as well as expertise in relation to international taxation issues, particularly in respect of developing countries and their treaty relations with developed countries. [Victor: can we add a sentence on the ad-hoc group of experts here, or should we ask Mr. Bouab to propose a sentence?]

The International Monetary Fund and the World Bank have a nearly universal membership and the two organizations are the world’s main repositories of expertise in tax issues for developing countries. In addition, the concerns that underlie the call for new global structures relate directly to their core operational mandates. A network would allow them to discuss with their membership issues of cross-cutting importance which now are raised mostly on a bilateral basis. These four organizations therefore should have a prime responsibility for setting up and operating the new network.

This Steering Group could complement the recently created Council of International Tax Organisations which is intended to encourage a dialogue between CIAT, CATA, CREDAF and IOTA, and the OECD on a wide range of tax administration issues.

Core functions of the network

One of the major advantages of a network over the creation of an international organization is its flexibility and dynamic structure. It is to be expected that the functions of the network will evolve over time as the participating countries/organizations decide to broaden or refocus them. Nevertheless, some core tasks and considerations are apparent, considering that the network’s main role should be to provide for global exchange of views and experience on tax policy and administration issues.

A first guiding principle is that the network must provide clear value-added over existing capacities. Such a comparative advantage is not obvious regarding the compilation of statistics or descriptive information on tax systems. Such activities—apart from the fact that they require substantial financial and human resources—are being carried out effectively by existing public and private institutions; they do not require a global tax network. Thus the network will have no role in the routine collection of tax information or statistics.
A global network could add value, however, as a focal point for the collection and sharing of information on bilateral and multilateral technical assistance activities in relation to tax policy and administration and the coordination of training activities. The difficulties that currently arise from the absence of systematic means of information sharing on TA activities are an increasing source of concern. The network, through both participating countries themselves and collaboration with TA-providing agencies, could usefully maintain and make widely available an information base on past and prospective projects. This information base could be based on the OECD’s Forum on Strategic Management Knowledge Exchange website which is currently in the process of development. The aim of this site is to provide a secure multi-lingual environment for tax policy makers and administrators in developing and developed countries to access information on recent developments and best practices. This information–sharing role might in time evolve into a more purposive role of coordinating TA activities. Ultimately, perhaps, the network might become involved in the direct provision of TA, financed by a trust fund. This, however, needs thorough preparation and coordination among donors, and so lies beyond the foreseeable future.

The core functions of the proposed network would thus be:

- Discussion of tax matters of common interest, which are likely to be primarily those relating to improving the effectiveness of tax administrations and policy issues with cross-border aspects;
- Sharing experiences;
- Identification of best practices.
- Maintaining a widely accessible database on current and prospective technical assistance activities in tax policy and administration.

Structure and Management

As the primary objective of the network in the initial stage is to foster good policy-making, and to assist countries to improve the effectiveness of their tax administrations, the extent and nature of the demand for institutional structures to facilitate this objective needs to be determined.

As a first step in facilitating global tax dialogue, it is proposed to create a loose ‘Global Tax Network’ (GTN). A primary responsibility of the GTN would be to facilitate the organisation by the UN with the other sponsoring organisations regular meetings on topics of common interest, to oversee the sharing of information, to identify issues which should be taken-up by the sponsoring organisations and regional tax organisations.

The lead in organizing these meetings could rotate between the IMF, the World Bank, the OECD and the UN. A steering group of these four sponsoring bodies would initially frame the agenda as well as deal with logistics; in time, some formal participation in the process from regional and international tax organisations as well as participant countries might be expected.

All countries would be welcome to participate in the meetings with no preconditions, along with regional tax organizations and regional development banks.
Resource implications

The first meeting sponsored by the GTN could be held in late 2002 or early 2003. The creation of a Steering Group itself would not require any additional resources. The convening of the GTN would require additional resources, although the organisation of these meetings itself will not require a standing secretariat; however, the steering group members will have to contribute to the preparation and possible follow-up actions by providing sufficient staff time. In addition, a host country for the meeting will have to be identified. Meetings might occasionally be run in conjunction with the Annual Meetings of the IMF and the World Bank or a UN event.

If the activities of the GTN expand, a small secretariat—in the order of 4 or 5 professional staff, plus assistants—may be needed to coordinate the activities and develop a focal role in relation to information on TA activities. Staffing might be by secondment from the four sponsoring organizations and participating countries. Further demands on specialist staff time might also be expected from requests to prepare papers for the meeting, or to undertake special studies.

The need for evolution

The final structures of a global tax dialogue will need to emerge from a consensus, which will have to develop over a number of years. This note therefore does not aim to describe the final and definite institutional setting of the dialogue.

The strategy set out in this note comprises an initial step in global dialogue, which may be followed by a process of further development. The objective of the first step is the creation of a steering group of the IMF, WB, UN, and OECD which would facilitate a loosely structured Global Tax Network. While the first step of the process is fairly clear, developments beyond that will reflect the evolution of the first step and so remain much hazier.